Parliamentary Commission on Banking Standards

A culture of entitlement has emerged in banking for a variety of reasons. No one reason to my mind. This has resulted in the fear of losing good people, obscene levels of award in a minority of cases and excessive reward in many cases for the investment banking community and particularly those in the front office (as business plans are heavily predicated on revenue growth). This culture first emerged in the eighties. Regulation has influenced pay outcomes more recently and shareholders have clearly become concerned more recently.

Pressure from all quarters – remuneration committee, media, regulators, politicians, academics as well as shareholders and senior management - has forced senior management to address slowly the complexities of existing structures and introduce simplification and reduced quantum as well as demanding a clearer presentation of what bankers actually get paid and why. Shareholders are being asked to play a larger role in determining outcomes through consultation and voting. It will take time for shareholders to accept fully and adapt responsibly to their new role. The major UK long-only institution are taking the lead, however they account for less than the majority of a register in UK banks but it will be their influence and the reputation of governance generally in the UK which will be paramount in assisting remuneration committees, senior management and regulators to continue with reforms. I regret to say that many AGM remuneration votes at the moment are still cast based upon misunderstood interpretation of the facts or lack of interest by shareholders in the subject.

Pay at Barclays was influenced by many factors and it would be elegant and ideal to be able to show a clear and measured link between quantum of pay and value created for the franchise. Various measures are used to demonstrate pay trends (e.g. cost/income ratios) and franchise measures (e.g. return on risk-weighted assets, return on equity, loan loss ratios and EPS growth). In addition attempts have been made to introduce more behavioural criteria such as relationships with the regulators and even citizenship. However, measurement of such criteria which cannot be determined from the annual report and accounts require more judgement and whilst worthy are fluffy. Integrity is part of the day job.

Pay at Barclays is influenced by market forces and certain competitors. Reports are produced for the committee by external consultants and these inform the committee on historic pay awards and likely in-year awards. The committee was aware but not overly influenced by the external information. At Barclays the committee was aware that pay was at the top end of the scale and asked the Chief Executive on his appointment to take a leadership position and clarify the pay culture to staff – I am referring to Mr Diamond not Mr Jenkins - Mr Diamond was reluctant to do this and reluctant to accept pay at Barclays was high particularly in the investment bank. The market however knew Barclays were good payers and Mr Diamond himself was well known for his own attitude to reward. I believe Mr Diamond was overly protective of his investment banking franchise and notwithstanding Barclays overall results felt it necessary to retain bankers in anticipation of an upswing in business activities and to retain their loyalty. My mantra at Barclays and to shareholders has always been that Barclays costs needed to come down and pay had to play its part. Any other business which I have been involved in through the financial upheaval of the past few years has cut variable pay and head count significantly as you would expect in a low growth and uncertain environment. There are mitigating factors at Barclays which are worth noting. The substantially changing regulatory environment and the more intrusive regulation required a higher level of staffing as did the significant number of regulatory investigations and company. The continuing evolution of risk management was also leading to the requirements of better and more staff in certain areas. Barclays also wanted to invest it is African franchise and other areas of the retail bank to continue to improve its capabilities by upgrading staff at a time when there were good people available on the market.

However, in my view Barclays were demanding too much patience from their shareholders and were insufficiently sensitive to the political and economic environment and the hostile attitude to banks generally. Barclays returns in 2011 were not good from a shareholders perspective with the

key measure of ROE (and substantially lower leverage) not covering the cost of capital and the share price and dividends showing poor returns. It was for this reason that I disagreed with the Board Chairman's recommendation on Mr Diamond's annual bonus for 2011. I recommended zero. I was alone in my view both on the committee which I chaired and on the board. The then Chairman of the board is in a better position to explain how his formulation was reached. My determination was quite straight forward, return to shareholders had been poor and Mr Diamond needed to set an example to all stakeholders that remuneration policies had to change to reflect the low return environment.

For other senior employees at Barclays Mr Diamond would set recommendations with the help of his HR function and executive committee. He recognised that some of the historic long term plans were now rewarding staff too highly because of the way the calculations had turned out and he was willing to take the remuneration committee lead that the quantum should be reduced. Shortly before he resigned he agreed to cap some investment bankers annual total reward. In terms of steer and pressure I would say that the committee and board members needed to exercise careful judgement. A level of trust and cooperation needs to exist between non execs and senior management, but the remuneration committee needs to be mindful of and respectful of its duties to shareholders. Vocal shareholders were quite clear on the need to reduce pay at Barclays and this message was communicated in no uncertain terms to the Chairman, the company secretary, the HR personnel, myself and Mr Diamond. My principle concern and job was to listen to shareholders.

There was engagement between the risk committee and the remuneration committee and there was I believe a mutual respect between the respective chairmen of these committees and ultimately – although it took longer than I wanted – the chairman of the risk committee joined the remuneration committee. It was normal practice at Barclays for senior management to review employee's compliance records and to take these and any transgressions picked up by internal audit into account when finalising individual remuneration. Risk governance works in Barclays through well documented policies and mandates and breaches of these are reported to the risk and audit committees. I was a member of the audit committee. Again annual bonuses would be affected by breaches and of course serious breaches would result in terminations. Although the libor investigations were underway when I joined the board no adjustment to bonuses or claw back was contemplated until the final settlement was announced. As we know Mr Diamond agreed to give up his 2012 annual bonus which gesture was superseded by his leaving. At the time of the PPI revelations a thorough exanimation was undertaken by Barclays and those who were responsible and still at the bank had their bonuses reduced. It was more difficult to adjust bonuses for reputational damage caused to the bank by prior actions. For example Barclays tax affairs or Barclays actions on "Protium".

Barclays produced adequate information for the remuneration committee and benefited from a newly centralised HR function which has a level of integrity and objectivity on remuneration matters generally. Barclays shows willingness to respond to information demands made by me and my committee members. Examples would include regulatory updates on remuneration issues, historic charts showing the share of the profit pie between shareholders and employees and charts showing the effects on shareholder returns of reduced variable compensation. We also wanted to fully understand the built-in effects of deferring compensation over a number of years on the medium-term plan. We were careful to ensure that remuneration was aligned with the need for capital formation. Great care was taken over the content of the remuneration report which had to accommodate statutory, shareholder and remuneration committee demands; in 2012 this included material disclosure on Mr Diamonds equalisation package which had been agreed by the Chairman on Mr Diamond's appointment. The majority of communication with shareholders happened at a governance level with the company secretary and the Chairman. I however attended a number of meetings with the ABI and individual shareholders who were keen to give me their views on the Barclays remuneration arrangements and in some cases make suggestions for improvements. These are referred to above.

The recent mandated changes in compensation structures are difficult to fully assess - it is too early. There is a general consensus emerging that schemes should be simpler and share schemes should be longer term. I fully agree with this. At the moment the banking industry is migrating to the new

standards. Annual bonuses should continue to be awarded but only after shareholders have themselves benefited from performance. Annual bonuses need to be lower to reflect the lower overall returns which banks are likely to make over the medium term. Long term motivational share awards should be awarded for exceptional senior talent by selecting those individuals who have shown consistent and long term achievement for the bank and are regarded as important for the future success and stability of the bank. There has been a tendency for long term awards to be given automatically and to be expected by employees and for the performance criteria to create distorting behaviour. I have no particular view on the ratio of fixed to variable pay, I believe and shareholders will want staff to be paid for performance but they recognise that recruiting is competitive at various points in the banking cycle and always competitive for the very best people. Capping variable pay already happens for Board level executives and shareholders have insisted on this. Companies for years have been in discussion over the appropriate level. The Liikanen report appears to want to reduce the cap from current practice and the immediate effect of this would be to increase fixed pay or to increase mobility or both. The longer term effects could be to reduce the reward and attractiveness of working in banks in the quoted sector although I myself doubt this. The expected effects of the most recent changes to regulations including deferrals and voting and provisions of additional information will be absorbed relatively easily. The intense focus on remuneration structures and levels has resulted in some improvement in accountability and will continue to do so. More disclosure and more transparency is uncomfortable for a minority. It does result in a few employees wanting to remain under the radar by which I mean they leave or prefer to remain in a position below that which requires additional disclosure or changes in their pay structure. It is questionable whether some regulations such as the definitions of FSA code staff (with the associated pay structures) are yet working. It is also questionable whether it is appropriate to require all payments at a senior level always to be deferred into shares. Over time good dialogue and continuing pressure should result in all parties reaching the right answers on the implementation or the revision of many of the changes which are new or relatively new. I sincerely hope that this years pay round relating to 2012 continues to make progress.

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